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TAGS: ECON EINV EIND PGOV PREL RS
SUBJECT: ECONOMIC MINISTRIES TAKE ON MEDVEDEV'S PRIORITIES

¶1. (SBU) Summary. Econ Minister Counselor met separately with Deputy Minister for Regional Development (MRD) Vitaliy Shipov and Deputy Minister for Economic Development and Trade (MEDT) Andrei Klepach in late April to discuss their respective Ministry's roles in the first year of President Medvedev's administration. Shipov said the MRD would carry out many of Medvedev's highest priority projects, such as programs on housing and infrastructure. The MRD was also preparing a Regional Development Strategy, which would be a companion piece to the 2020 Economic Development Program of MEDT. Klepach said his Ministry's 2020 plan would be complete by fall but in addition MEDT was working on a reform program for the first year of Medvedev's presidency, which would focus on economic modernization and include tax cuts. End Summary

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REGIONAL DEVELOPMENT: HOUSING AND INFRASTRUCTURE FOCUS
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¶2. (SBU) In an April 28 meeting with Econ M/C, Shipov, who also serves as MRD Minister Kozak's state secretary, said that many of President Medvedev's highest priorities, including federal programs on housing and infrastructure investment projects would fall under the MRD. As a result, the MRD was likely to take on added importance in the new government. He said the Ministry had strong political support from President-elect Medvedev and would receive additional resources after the change in government in May.

¶3. (SBU) Shipov claimed that housing construction was on the upswing but acknowledged that affordable housing remained a major GOR concern. He expressed interest in reviving a housing "seminar" that would bring together experts, including from the U.S., and provide Russia with an opportunity to learn from the experiences of other countries. That said, Russia did not intend to solve the current shortage by creating government housing. It was committed to private sector solutions, which would be supported by the GOR through two MRD-managed funds: the Fund to Assist Housing Maintenance, which would subsidize repairs of existing housing stock and the Fund on Promoting Housing Construction, which would sell idle federally-owned land for housing construction.

¶4. (SBU) Shipov confirmed that his Ministry now also had responsibility over the GOR's Investment Fund for major capital investment projects. He said the GOR commission overseeing these projects had already approved 20 of them, including such high-profile ones as the Moscow-St.Petersburg

toll road and the St.Petersburg-Helsinki expressway. The MRD's plan was to use the Investment Fund to provide seed money to start the projects but to develop them through public-private partnerships. Foreign firms would be welcome to participate.

¶5. (SBU) Shipov said the authority for many federally-funded projects would be delegated to regional authorities and projects would be designed to stimulate regional initiatives. He added that transferring authority back to the regions was one of the Ministry's key goals. For instance, responsibility for social infrastructure, such as education and health care, along with budget resources had been moved back to the regions, which "knew better" what was needed locally. The Ministry would, however, continue to provide budget support and would monitor regional government activities.

¶6. (SBU) Shipov added that the Ministry was an active participant in developing the GOR's 2020 Economic Development Program, which was being spearheaded by the Ministry of Economic Development and Trade (MEDT), and which was currently being finalized. He added that his Ministry was also working on a separate blueprint for regional development through 2020, which he expected to be approved in the fall.

ECONOMICS MINISTRY: "THE GOR'S BRAINS"

¶7. (SBU) In an April 29 meeting, MEDT Deputy Minister, Andrei

Klepach, told Econ M/C that MEDT was the driving force behind the GOR's economic development plans, the government's economic "brains" as it were. He said this included responsibility for the 2020 Economic Development Program, which he expected to be complete and approved in the Fall. However, it also included an economic reform program to be implemented early in Medvedev's administration. This program would be ready to be unveiled by summer and would focus on tax reforms to stimulate consumer spending and value-added economic activity. The centerpiece would be a reduction in the VAT rate.

¶8. (SBU) Klepach said health care and education modernization would take center stage in the near-term reforms. He said that the MEDT's reform programs were currently under review with the Ministries of Social Development and Education. He said these would be "messy and radical" reforms and very costly for the federal budget. In addition, the MEDT was currently working on new ideas and projects that included federal programs to support the arts, infrastructure projects for the handicapped, and professional education. He said that these proposals would be ready by year's end.

¶9. (SBU) Klepach acknowledged disagreement within the GOR over the reform program. The Finance Ministry was opposed to fiscal loosening which it believed would result in lower government revenues. MEDT, however, believed that the resulting increased economic activity would pay for itself by increasing revenues. He was optimistic that a compromise with the Finance Ministry would be reached. In any event, Klepach said Russia had pressing needs and some fiscal loosening was inevitable. Moreover, the current budget surplus was not sustainable: the price of oil would inevitably fall and the budget surplus would then shrink. Modernizing the economy would create more sustainable methods of supporting fiscal policy.

¶10. (SBU) Klepach added that in the short-run Russia could experience some economic turbulence. For instance, he expected a trade deficit to appear by 2011/12, even if the price of oil were to remain at or above $70 per barrel. In addition, the international credit crunch had caused capital outflow. Although the situation had improved in April and

FDI remained strong, there was still a net outflow so far in
¶2008. Klepach said monetary policy would have to adjust to
the change in the balance of payments with interest rates
rising and the exchange rate falling.
BURNS